

ANNUAL REPORT

YEAR ENDED DECEMBER 31, 1938



NATIONAL BISCUIT COMPANY

NATIONAL BISCUIT COMPANY

449 West Fourteenth Street, New York

To the Stockholders:

Gross sales in 1938 were \$97,486,877 compared with \$101,942,900 in the year 1937. Net income for 1938 was \$12,799,770 compared with \$11,895,111 for 1937. A reduction in dollar volume due partially to lower selling prices was offset by lower raw material prices resulting in increased net income.

The nature of the business is such that inventories, both raw materials and finished product, can little exceed current needs, and the Company does not enter into future commitments at any time in such amount as to affect its financial position materially.

Depreciation has been charged in the amount of \$2,871,499 as compared with \$2,855,530 in 1937. This is an adequate allowance and follows the Company's established practice.

The year has been marked by many improvements in methods and equip-

ment which are reflected in increased efficiency, lower operating costs and improved service.

The modernization of our bakery at Cambridge, Mass., started in 1937, was completed in the past year. This included the installation of new band and plate ovens of the most modern type, necessary additions to the plant for housing same and general improvements in the whole structure and equipment.

Further modernization of building and equipment has been effected at the New York Bakeries and a fourth band oven is being installed. This type of oven is the latest development in the field and has proved most satisfactory.

The new paper board mill at Marseilles, Illinois, has been completed and represents one of the finest installations of its kind in the industry. The Company will be in position to manu-

facture, at a material saving in cost, a type of carton board formerly purchased in large quantities from outside sources.

In last year's report we mentioned that plans were under way for an addition to the Shredded Wheat plant located at Welwyn Garden City, England. The building addition to this plant has been completed. The installation of three automatic ovens has been started and the work should be completed and ready for operation by next June. Construction of an extension to the grain storage silos of this plant will increase the storage facilities to 430,000 bushels.

About the middle of 1938 we started erection of an extension to the present Shredded Wheat plant at Niagara Falls, Ontario, Canada. The building work will be completed during the early part of 1939 and in connection with it there will be installed an automatic oven for the manufacture of Shredded Wheat Biscuit. The installation will have been completed and the oven ready for operation before the

middle of the year. These additions will double the present capacity of this plant.

After prolonged litigation against the Kellogg Company, part of which was pending at the time our Company acquired the assets of The Shredded Wheat Company, the Supreme Court of the United States, after having first refused a review of the favorable decision of the Circuit Court of Appeals reported to you a year ago, reversed its position, heard an appeal and decided it unfavorably. The Court held that the words "Shredded Wheat" are descriptive and may be used by anyone to describe such a product. A similar decision was entered by the Privy Council terminating like litigation in Canada. An appeal to the House of Lords from an English decision of like import is now pending.

The outcome of this litigation presents a merchandising problem. It requires that the public be informed that National Biscuit Shredded Wheat is the product they know. This we shall

do through effective advertising in the coming year. We shall be materially aided, of course, by the fact that we have a distinctive package which the public has recognized for more than forty years and a direct-to-the-trade distribution unmatched by any large cereal manufacturer. The good-will of this Company and its predecessors in "Shredded Wheat" cannot be taken from us.

During the year we introduced in limited areas, "Cubs", a small Shredded Wheat type biscuit. In the short time this new cereal has been on the market it has made a favorable impression. Plans call for a wide increase in distribution in the immediate future.

We are preparing to enter the bread business in Canada. A modern bread plant will be installed in the King Street, Toronto, Bakery after certain building alterations have been completed. A one story garage building adjoining this bakery is being erected. Starting only a few years ago we have built a very substantial soft cake business out of Toronto and we feel that our

bread, marketed under the well known "Christie" trade-mark will be equally well received.

Several years ago the Company adopted a uniform work week of 40 hours throughout its manufacturing plants. Its wage payments have always been well above the minima prescribed by any legislation and among the highest in the food field. For these reasons the recently enacted Federal Wage and Hour Law presented no problem.

In modernization and improvement we have kept in the forefront of the industry. The past year has witnessed more than usual development along these lines. We feel that we are well equipped to take advantage of that improvement in general conditions which we hope the coming year will bring.

The consolidated balance sheet of the Company at December 31, 1938, and the income and surplus account on the following pages show the financial condition of the Company at the close of its 41st fiscal year.

Roy E. Tomlinson, *President.*

CONSOLIDATED

ASSETS	December 31, 1938	December 31, 1937
Cash	\$30,121,726.68	\$26,416,905.73
U. S. Bonds	757,500.00	757,500.00
(Quoted Market 12/31/38—\$798,153.13)		
Municipal Bonds (N. Y. City)	18,500.00	18,500.00
(Quoted Market 12/31/38—\$20,920.00)		
Note: \$419,000.00 Principal Amount U. S. and Municipal Bonds deposited for special reasons.		
Accounts Receivable	2,572,628.09	2,523,465.13
Raw Materials, Supplies and Finished Product	7,750,351.35	10,169,121.85
(At Cost or Market, whichever is lower, less Special Inventory Reserve of \$1,019,381.51 charged to prior earnings.)		
Total Current Assets	\$41,220,706.12	\$39,885,492.71
Notes and Mortgages Receivable	292,340.59	154,724.06
Notes and Accounts of Officers and Employees	129,530.00	301,960.00
(For Capital Stock Subscriptions.)		
Company's Capital Stock Purchased for Resale to Employees	157,877.00	12,617.00
(Quoted Market 12/31/38—\$242,122.00)		
Plants, Real Estate, Machinery, Intangibles, etc.	82,282,227.28	82,806,222.24
(At Cost in Cash or Capital Stock, Less Allowances for Depreciation.)		
Prepaid Expenses and Deferred Charges	903,020.20	861,832.66
Total	<u>\$124,985,701.19</u>	<u>\$124,022,848.67</u>

BALANCE SHEET

LIABILITIES

	December 31, 1938	December 31, 1937
Accounts Payable (Purchase Invoices, Pay Rolls and other Accruals not due for payment.)	\$1,896,394.19	\$1,800,482.55
Reserve for Federal and Foreign Income Taxes	4,627,091.10	4,023,825.57
Total Current Liabilities	\$6,523,485.29	\$5,824,308.12
Insurance and Contingent Reserve	7,701,253.10	7,696,599.54
Capital Stock, Preferred (Par Value \$100.00—7% Cumulative) Shares authorized 250,000, issued 248,045	24,804,500.00	24,804,500.00
Capital Stock, Common (Par Value \$10.00) Shares authorized 12,000,000, issued 6,289,448	62,894,480.00	62,894,480.00
Earned Surplus	13,405,969.26	13,146,947.47
Capital Surplus	9,656,013.54	9,656,013.54
Total	<u>\$124,985,701.19</u>	<u>\$124,022,848.67</u>

CONSOLIDATED INCOME AND EARNED SURPLUS
YEAR — 1938

Earnings for the year 1938:

From Operations	\$18,479,858.48
Other Income	188,953.45
Total	\$18,668,811.93

Less:

Depreciation	\$ 2,871,499.02
Provision for Federal and Foreign Income Taxes . .	2,997,542.41
Net Earnings for the year	\$12,799,770.50

Less:

Write-down of Plants, Real Estate, Machinery, Intangibles, etc. Account, in addition to above depreciation allowance	752,732.91
Balance of Net Earnings credited to Surplus	\$12,047,037.59
Earned Surplus December 31, 1937	\$13,146,947.47
	\$25,193,985.06

Less:

Preferred Dividends Paid	\$ 1,735,699.00
Common Dividends Paid	10,052,316.80
Earned Surplus December 31, 1938	\$13,405,969.26

CERTIFICATE OF AUDITORS

The President and Board of Directors,
NATIONAL BISCUIT COMPANY,
New York, N. Y.

We have made an examination of the consolidated balance sheet of the National Biscuit Company and its subsidiary companies as at December 31, 1938, and of the statement of consolidated income and surplus for the year 1938. In connection therewith, we examined or tested accounting records of the parent company and of its subsidiaries and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based on such examination, the accompanying consolidated balance sheet and related statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their consolidated position at December 31, 1938, and the results of their operations for the year.

Lybrand Rose & Montgomery

New York, N. Y.
February 2, 1939

BOARD OF DIRECTORS

FREDERICK BEERS	HOWARD M. HANNA
ALBERT G. BIXLER	EDWARD F. LOW
HENRY J. COCHRAN	EDWARD S. MOORE
EDWARD Y. CROSSMORE	PAUL MOORE
FRANKLIN D'OLIER	LIVINGSTON PLATT
ROBERT A. FAIRBAIRN	JACKSON E. REYNOLDS
ROY C. GASSER	ROY E. TOMLINSON

WYNANT D. VANDERPOOL

OFFICERS

ROY E. TOMLINSON, <i>President</i>	CHARLES E. DUNLAP, <i>Controller</i>
ALBERT G. BIXLER, <i>Vice Pres.</i>	CHARLES F. BLISS, <i>Secretary</i>
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CLYDE S. STILWELL, <i>Vice Pres.</i>	FREDERICK F. BRODESSER, <i>Asst. Treas.</i>
ERNEST B. TOMLINSON, <i>Vice Pres.</i>	GEORGE H. COPPERS, <i>General Counsel</i>

TRANSFER AGENT

GUARANTY TRUST COMPANY
NEW YORK

REGISTRAR

FIRST NATIONAL BANK
NEW YORK

